NEWSLETTER MAY 2017

VAT FLAT RATE SCHEME – LIMITED COST TRADER

Changes are being made to the Flat Rate Scheme (FRS) which take effect from 1 April 2017. These changes may mean that the FRS is less attractive to some businesses and this may result in these businesses deciding to no longer operate under the FRS. In some cases where a trader has voluntarily registered for VAT it may be appropriate to deregister from VAT.

A new higher 16.5% rate will apply from 1 April 2017 for businesses with limited costs, such as many labour-only businesses, using the Flat Rate Scheme. Businesses using the FRS, or considering joining the scheme, will need to decide if they are a 'limited cost trader'.

Under the FRS a set percentage, determined by the business trade sector, is applied to the VAT inclusive turnover of the business as a one-off calculation instead of having to identify and record the VAT on each sale and purchase the business makes. The percentage rates are determined according to the trade sector of the business and these generally range from 4% to 14.5%.

A limited cost trader will be defined as one whose VAT inclusive expenditure on goods is either:

- less than 2% of their VAT inclusive turnover in a prescribed accounting period
- greater than 2% of their VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000).

'Relevant goods', for the purposes of this measure, must be used exclusively for the purpose of the business but exclude the following items:

- capital expenditure
- food or drink for consumption by the flat rate business or its employees
- vehicles, vehicle parts and fuel, except where the business is one that carries out transport services, for example a taxi business, and uses its own or a leased vehicle to carry out those services
- payment for services, as these are not goods, this would include rent, accountancy fees, advertising costs etc

Examples of qualifying 'relevant goods' include stationery (and other office supplies), gas, electricity and cleaning products, but only where these are used exclusively for the business.

Businesses using the FRS will need to ensure that, for each VAT return period, they use the appropriate flat rate percentage, so the check to see whether a business is a limited cost trader will have to be carried out for each VAT return.

These rules come into force from 1 April 2017, so where a business has a VAT period that straddles 1 April 2017, the test to determine whether the business is a 'limited cost trader' will only apply to the period from 1 April 2017.

Please contact us if you would like advice on the FRS.

MINIMUM WAGE RISES AGAIN

Employers need to ensure they are paying their employees at least the appropriate National Minimum Wage (NMW) or National Living Wage (NLW) rate. The rates increase from 1 April 2017.

	From 1 October 2016	**From 1 April 2017**
NLW rate for workers aged 25 and over	£7.20*	£7.50
the main rate for workers aged 21-24	£6.95	£7.05
the 18-20 rate	£5.55	£5.60
the 16-17 rate for workers above school leaving age but under 18	£4.00	£4.05
the apprentice rate **	£3.40	£3.50

* introduced and applies from 1 April 2016

**for apprentices under 19 or 19 or over and in the first year of their apprenticeship

Going forward the NMW and NLW rates will be reviewed annually in April.

What are the penalties for non-compliance?

The penalties imposed on employers that are in breach of the minimum wage legislation are 200% of arrears owed to workers. The maximum penalty is £20,000 per worker. The penalty is reduced by 50% if the unpaid wages and the penalty are paid within 14 days. HMRC also name and shame employers who are penalised.

TAX-FREE CHILDCARE TO BE ROLLED OUT FROM 28 APRIL 2017

Tax-Free Childcare, the new government scheme to help working parents with the cost of childcare, will be launched from 28 April 2017.

For every £8 a parent pays in, the government will pay in an extra £2. Parents can receive up to £2,000 per child, per year, towards their childcare costs making a total amount of £10,000. Higher limits of £4,000 and £20,000 apply for disabled children.

To qualify for Tax-Free Childcare all parents in the household must generally meet a minimum income level, based on working 16 hours a week (on average £120 a week) and each earn less than £100,000 a year.

The scheme will be available for children up to the age of 12, or 17 for children with disabilities. All eligible parents will be able to join the scheme by the end of 2017. Parents will be able to apply for all their children at the same time although the government rollout will start with the youngest children first. Parents will need to open an online account, which they can use to pay for childcare from a registered provider.

For those employers who currently offer Employer Supported Childcare, usually in the form of childcare vouchers, these schemes can remain open to new entrants until April 2018. Existing members will have the option to remain in their existing scheme or change over to Tax-Free childcare as their child becomes eligible.

A calculator is available on GOV.UK so that parents can check their eligibility for the new scheme and other government provided childcare available.

CLASS 4 NATIONAL INSURANCE U-TURN

One of the significant announcements Chancellor Philip Hammond made on Budget Day was the proposed increases to the main rate of Class 4 National Insurance Contributions (NICs) paid by self-employed individuals from 9% to 10% from April 2018 with a further increase planned from 10% to 11% from April 2019.

The Chancellor subsequently announced that the government will not now proceed with the proposed increase in Class 4 NICs rates . Self-employed individuals currently pay Class 2 and Class 4 NICs. Class 2 NICs are to be abolished from April 2018.

BUSINESS RESPONSE TO GENERAL ELECTION ON 8 JUNE

In response to the announcement of a General Election on 8 June Carolyn Fairbairn, CBI Director-General, said:

'With a snap General Election now called, businesses will be looking to each political party to set out their plans to support economic stability and prosperity over the next Parliament in a way that is fair and sustainable for communities across the UK. 'Distraction from the urgent priorities of seeking the best EU deal and improving UK productivity must be kept to a minimum.'

'Firms will want to hear commitments from all parties to work in close partnership with business and back a new Industrial Strategy to make the UK economy the most competitive in the world by 2030.'

'It is essential to get the UK's foundations right, from building a skills base for the next generation, to investing in infrastructure, energy and delivering a pro-enterprise tax environment.'

'As EU negotiations now get underway, firms are clear about the serious risks of failing to secure a deal and falling into World Trade Organisation rules. It is vital that negotiators secure some early wins and all parties should commit to working to ensure businesses can continue to trade easily with our EU neighbours, while seeking new opportunities around the world.'

'Whoever forms the next Government, they should seek to build a partnership between business and government that is the best in the world, based on trust and shared interest.'

OFF PAYROLL WORKING IN THE PUBLIC SECTOR RULES AMENDED

From 6 April 2017, new tax rules were introduced which potentially affect individuals who provide their personal services via their own companies (PSCs) to an organisation which has been classified as a 'public authority'. Amendments have now been made to the definition of a public authority.

Where these rules apply:

- the public authority (or an agency paying the PSC) calculates a 'deemed payment' based on the fees the PSC has charged for the services of the individual
- the entity that pays the PSC for the services must first deduct PAYE and employee National Insurance contributions (NICs) as if the deemed payment is a salary payment to an employee
- the paying entity will have to pay to HMRC not only the PAYE and NICs deducted from the deemed payment but also employer NICs on the deemed payment
- the net amount received by the PSC can be passed onto the individual without paying any further PAYE and NICs.

The rules were intended to cover those engaged by public sector organisations including government departments and their executive agencies, many companies owned or controlled by the public sector, universities, local authorities, parish councils and the National Health Service.

However, prior to this amendment, private sector retail businesses including high street pharmacies and opticians would have inadvertently been within the scope of the off payroll working in the public sector measure. As a result, such businesses would have been required to consider whether the new rules applied to all contractors working for them through an intermediary. This was not the intention of this policy and the rules have been amended.

The rules operate in respect of payments made on or after 6 April 2017. This means that they are relevant to contracts entered into before 6 April 2017 but where the payment for the work is made after 6 April 2017.

If you would like any help with these new rules contact us.

P11D DEADLINE APPROACHING

The forms P11D which report details of benefits and some expenses provided to employees and directors for the year ended 5 April 2017, are due for submission to HMRC by 6 July 2017. The process of gathering the necessary information can take some time, so it is important that this process is not left to the last minute.

Employees pay tax on benefits provided as shown on the P11D, generally via a PAYE coding notice adjustment or through the self assessment system. Significant changes were introduced to the rules for reporting expenses from 6 April 2016.

Some employers payrolled the benefits and in this case the benefits do not need to be reported on forms P11D but employers should advise employees of the amount of benefits payrolled.

In addition, regardless of whether the benefits are being reported via P11D or payrolled the employer has to pay Class 1A National Insurance Contributions at 13.8% on the provision of most benefits. The calculation of this liability is detailed on the P11D(b) form. The deadline for payment of the Class 1A NIC is 19th July (or 22nd for cleared electronic payment). As 22nd July is a Saturday it may be appropriate to ensure cleared payment is made by Friday 21st July unless you can arrange for faster payment.

HMRC produce an expenses and benefits toolkit. The toolkit consists of a checklist which may be used by advisers or employers to check they are completing the forms correctly.
If you would like any help with the completion of the forms or the calculation of the associated Class 1A NIC please get in touch.

VAT FUEL SCALE CHARGES

HMRC have issued details of the updated VAT fuel scale charges which apply from the beginning of the next prescribed VAT accounting period starting on or after 1 May 2017.

VAT registered businesses use the fuel scale charges to account for VAT on private use of road fuel purchased by the business. Please do get in touch for further advice on this or other VAT matters.

CHANGES TO THE PAYE TAX SYSTEM USING REAL TIME INFORMATION

HMRC have announced that from the end of May 2017 they will be using Real Time Information (RTI) to make adjustments to employee tax codes in-year as and when the need arises.

HMRC states that this change in procedures will:

- offer more certainty to employers and their employees
- reduce the instances of unexpected tax bills arising
- ensure that more employees end the tax year having paid the right amount of tax.

Details of the change in procedures can be found in the HMRC Policy Paper briefing ‘Changes to our PAYE Tax System - helping customers pay the right amount of tax on time’**.** Further information about the changes can be found on page 4 of the Employer Bulletin April 2017 (Issue 65).

The Policy Paper confirms that individuals will be issued with a new tax code if their circumstances change. This brings about a marked change from the current system which deals with adjustments after the tax year end and codes any underpayment out via a coding notice adjustment in a subsequent tax year.

Affected employees should shortly be in receipt of tax code notices explaining the changes to the system and what they can do if they need help and support to manage their taxes.

Under the new procedures, once HMRC are aware that an employee’s circumstances have changed, they will amend the individual’s tax code and follow it up with a notification of the amendment to the employee. A copy notification will also be sent to the employer. It is important for employers and employees to ensure that HMRC are made aware of any changes in an individual’s circumstances as soon as possible.

Employers are advised to expect, from 1 June onwards, some employee enquiries relating to tax code changes. In the longer term, HMRC envisages reduced contact from employees regarding under or overpayments of tax.

If you would like help with Payroll or checking your tax code please contact us.

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